

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

RAINBOW RIDER
LOWRY, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

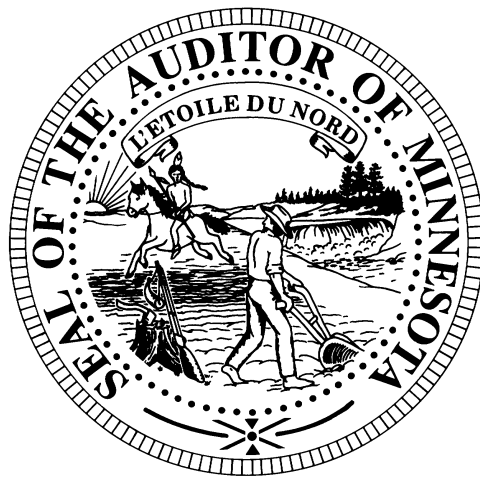
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**RAINBOW RIDER
LOWRY, MINNESOTA**

For the Year Ended December 31, 2004



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**RAINBOW RIDER
LOWRY, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Statement of Net Assets	Exhibit 1	8
Statement of Revenues, Expenses, and Changes in Net Assets	Exhibit 2	9
Statement of Cash Flows	Exhibit 3	10
Notes to the Financial Statements		12
Management and Compliance Section		
Schedule of Findings and Recommendations		24
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance		26

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**RAINBOW RIDER
LOWRY, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

The Rainbow Rider Transit Board consists of two members from each of the participating counties.

<u>Name</u>	<u>Position</u>	<u>County</u>
Board		
Bryan Withers	Vice Chair	Douglas
John Mingus	Member	Douglas
Robert McCrory	Member	Pope
Everell Barsness	Member	Pope
Herb Kloos	Chair	Stevens
Larry Sayre	Member	Stevens
David Naatz	Member	Traverse
William Gibson	Member	Traverse
Harold Jennissen	Transit Director	

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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Rainbow Rider Transit Board
Lowry, Minnesota

We have audited the accompanying basic financial statements of Rainbow Rider as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of Rainbow Rider's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Rainbow Rider at December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, Rainbow Rider adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Note Statement Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in format and content of the basic financial statements.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 22, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**RAINBOW RIDER
LOWRY, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

(Unaudited)

The Rainbow Rider Transit Board's (Board) Management's Discussion and Analysis (MD&A) provides an overview of Rainbow Rider's financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with Rainbow Rider's financial statements.

Rainbow Rider is a joint powers enterprise operation among Douglas, Grant, Pope, Stevens, and Traverse Counties created to provide a coordinated service delivery and funding source for public transportation for the mutual benefit of each of the joint participants.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Rainbow Rider's basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The financial statements present different views of Rainbow Rider's financial activities and consist of the following:

- The statement of net assets compares the assets and liabilities to give an overall view of the financial health of Rainbow Rider.
- The statement of revenues, expenses, and changes in net assets provides information on an aggregate view of Rainbow Rider's finances. All of the current year's revenues and expenses are taken into account regardless of when the cash was received or paid.
- The statement of cash flows provides sources and uses of cash for Rainbow Rider.

FINANCIAL ANALYSIS

Net Assets

	2004	2003	Increase (Decrease)	Percentage Change (%)
Assets				
Current and other assets	\$ 356,529	\$ 220,588	\$ 135,941	61.63
Capital assets, net	560,991	604,684	(43,693)	(7.23)
Total Assets	\$ 917,520	\$ 825,272	\$ 92,248	11.18
Liabilities				
Current liabilities	\$ 68,739	\$ 66,466	\$ 2,273	3.42
Noncurrent liabilities	17,079	136,536	(119,457)	(87.49)
Total Liabilities	\$ 85,818	\$ 203,002	\$ (117,184)	(57.73)
Net Assets				
Invested in capital assets, net of related debt	\$ 560,991	\$ 489,505	\$ 71,486	14.60
Unrestricted	270,711	132,765	137,946	103.90
Total Net Assets	\$ 831,702	\$ 622,270	\$ 209,432	33.66

The decrease in total liabilities from 2003 to 2004 is due mainly to the \$102,103 of loans and related accrued interest forgiven in 2004 by Douglas, Pope, Stevens, and Traverse Counties.

Changes In Net Assets

	2004	2003	Increase (Decrease)	Percentage Change (%)
Operating revenues				
Charges for services	\$ 387,222	\$ 314,648	\$ 72,574	23.07
Miscellaneous	33,641	17,857	15,784	88.39
Nonoperating revenues				
Interest earnings	5,990	3,061	2,929	95.69
Loans forgiven	102,103	-	102,103	-
Operating grants	838,389	696,146	142,243	20.43
Gain on disposal of capital assets	517	2,901	(2,384)	(82.18)
Total Revenues	\$ 1,367,862	\$ 1,034,613	\$ 333,249	32.21

	2004	2003	Increase (Decrease)	Percentage Change (%)
Operating expenses				
Personal services	\$ 600,088	\$ 547,168	\$ 52,920	9.67
Administrative charges	63,967	56,849	7,118	12.52
Operating charges	258,731	250,543	8,188	3.27
Insurance	14,403	14,835	(432)	(2.91)
Depreciation	215,810	181,020	34,790	19.22
Nonoperating expense				
Interest expense	5,431	6,990	(1,559)	(22.30)
Total Expenses	<u>\$ 1,158,430</u>	<u>\$ 1,057,405</u>	<u>\$ 101,025</u>	9.55
Change in Net Assets	<u>\$ 209,432</u>	<u>\$ (22,792)</u>	<u>\$ 232,224</u>	1018.88

Change in net assets increased from 2003 to 2004 due mainly to the loans forgiven and an increase in operating grants.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (Net of Depreciation)

	2004	2003	Increase (Decrease)	Percentage Change (%)
Land	\$ 7,500	\$ 7,500	\$ -	0.00
Land improvements	11,165	11,998	(833)	(6.94)
Buildings and structures	208,322	216,429	(8,107)	(3.75)
Machinery, furniture, and equipment	334,004	368,757	(34,753)	(9.42)
Total Capital Assets	<u>\$ 560,991</u>	<u>\$ 604,684</u>	<u>\$ (43,693)</u>	(7.23)

The major additions this year included the purchases of three buses for a total of \$154,706. Additional information on capital assets can be found in Note 2. D. of the financial statements.

During 2003, Rainbow Rider had outstanding debt in the form of loans and a capital lease. As of December 31, 2004, this debt has been extinguished. See Note 2.E. for information on debt.

FUTURE EVENTS

In 2005, Rainbow Rider has moved into a new office with an attached bus garage, located in Lowry, Minnesota.

CONTACTING RAINBOW RIDER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of Rainbow Rider's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Transit Director, Harold Jennissen, P. O. Box 136, Lowry, Minnesota 56349.

BASIC FINANCIAL STATEMENTS

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**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

Assets

Current assets

Cash and cash equivalents	\$ 280,222
Petty cash	50
Accounts receivable	9,213
Due from other governments	60,848
Inventories	6,196

Total current assets **\$ 356,529**

Capital assets

Nondepreciable	\$ 7,500
Depreciable - net	553,491

Total capital assets **\$ 560,991**

Total Assets **\$ 917,520**

Liabilities

Current liabilities

Accounts payable	\$ 25,008
Salaries payable	17,348
Due to other governments	6,887
Unearned revenue	17,747
Compensated absences	1,749

Total current liabilities **\$ 68,739**

Noncurrent liabilities

Compensated absences	17,079
----------------------	--------

Total Liabilities **\$ 85,818**

Net Assets

Invested in capital assets	\$ 560,991
Unrestricted	270,711

Total Net Assets **\$ 831,702**

**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Operating Revenues	
Charges for services	\$ 387,222
Miscellaneous	33,641
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Total Operating Revenues	\$ 420,863
Operating Expenses	
Personal services	\$ 600,088
Administrative charges	63,967
Operating charges	258,731
Insurance	14,403
Depreciation	215,810
	<hr/>
Total Operating Expenses	\$ 1,152,999
Operating Income (Loss)	\$ (732,136)
Nonoperating Revenues (Expenses)	
Interest earnings	\$ 5,990
Loans forgiven	102,103
Operating grants	
State	
Greater Minnesota transit fund	212,099
Public transit participation program	397,907
Federal	
Public transportation for nonurbanized areas	228,383
Interest expense	(5,431)
Gain (loss) on disposal of capital assets	517
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 941,568
Change in Net Assets	\$ 209,432
Net Assets - January 1	622,270
	<hr/>
Net Assets - December 31	\$ 831,702
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**RAINBOW RIDER
LOWRY, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Cash Flows from Operating Activities	
Receipts from customers	\$ 428,158
Payments to suppliers	(343,662)
Payments to employees	(587,483)
	\$ (502,987)
Cash Flows from Noncapital Financing Activities	
Operating grants	\$ 722,737
Cash Flows from Capital and Related Financing Activities	
Grants restricted for capital purchases	\$ 125,132
Acquisition of capital assets	(173,289)
Principal paid on capital lease	(35,179)
Interest paid on capital lease	(568)
Proceeds from sales of capital assets	1,688
	\$ (82,216)
Cash Flows from Investing Activities	
Interest received	\$ 5,990
	\$ 143,524
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 143,524
Cash and Cash Equivalents - Beginning of Year	136,698
	\$ 280,222
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (732,136)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	\$ 215,810
Changes in assets and liabilities	
(Increase) decrease in assets	
Accounts receivable	6,726
Due from other governments	(2,427)
Inventory	(6,196)
Increase (decrease) in liabilities	
Accounts payable	(13,939)
Salaries payable	13,450
Due to other governments	6,887
Unearned revenue	2,996
Compensated absences	5,842
	\$ 229,149
Total adjustments	\$ 229,149
Net Cash Provided by (Used in) Operating Activities	\$ (502,987)

**RAINBOW RIDER
LOWRY, MINNESOTA**

***EXHIBIT 3
(Continued)***

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Noncash Investing, Capital and Financing Activities

During the year ended December 31, 2004, a capital asset with an undepreciated cost of \$1,171 was disposed of. This loss was offset by the gain of \$1,688 recognized on the sale of another asset. The net result is a gain of \$517, as recorded on the Statement of Revenues, Expenses, and Changes in Net Assets for the year ended December 31, 2004.

**RAINBOW RIDER
LOWRY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The financial reporting policies of Rainbow Rider conform to generally accepted accounting principles.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. For the first time, the financial statements include a Management's Discussion and Analysis section providing an analysis of Rainbow Rider's overall financial position and results of operations.

This and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). Rainbow Rider has elected to implement all provisions of the statement in the current year.

A. Financial Reporting Entity

Rainbow Rider was established December 1, 1994, by a joint powers agreement among Douglas, Grant, Pope, Stevens, and Traverse Counties. Operations did not begin until 1995. The agreement was established to provide a coordinated service delivery and funding source for public transportation for the mutual benefit of each of the joint participants. The joint powers agreement remains in force until any single county notifies the other parties of its intentions to withdraw, at least 90 days before the termination takes effect. The remaining counties may agree to continue the agreement with the remaining counties as members. Grant County terminated its membership in Rainbow Rider on May 31, 1999.

Control is vested in the Rainbow Rider Transit Board (Board). The Board consists of two members from each county. The members of the Board are appointed by the County Commissioners of the county they represent. Members of the Board serve an annual term and may be reappointed by their respective county boards.

Rainbow Rider is a joint venture with no county having control over the Board. Each county has an ongoing responsibility to provide funding for the operating costs of the Board allocated in accordance with the actual expenses incurred by representatives of the respective counties on the Board.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The accounts of Rainbow Rider are organized as an enterprise fund. Operating revenues result from exchange transactions associated with its principal activity. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as intergovernmental revenue and loans forgiven, result from nonexchange transactions or incidental activities. Rainbow Rider's net assets are reported in two parts: (1) invested in capital assets and (2) unrestricted net assets.

C. Measurement Focus and Basis of Accounting

Rainbow Rider's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Pursuant to GASB Statement 20, Rainbow Rider has elected to not apply accounting standards issued by the Financial Accounting Standards Board after November 30, 1989.

D. Assets, Liabilities, and Net Assets

1. Assets

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand and all cash and investments with an original maturity of three months or less when purchased.

Inventories

Inventories are valued at last invoice price, which is substantially the first-in, first-out method.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets

1. Assets (Continued)

Capital Assets and Depreciation

Capital assets, which include property, buildings, furniture, equipment, and vehicles, are reported in the financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Depreciation is determined using the straight-line method for the estimated useful lives of the assets:

<u>Classification Range</u>	<u>Range</u>
Land improvements	15 years
Buildings	30 years
Furniture and equipment	3 to 10 years
Vehicles	5 years

2. Liabilities

Unearned Revenue

Unearned intergovernmental grants and unredeemed tickets are reported as unearned revenue until they are earned.

Compensated Absences

The accompanying financial statements include a liability for unused vacation that has vested. Rainbow Rider's personnel policy provides that employees earn vacation leave dependent upon their years of service. Vacation leave may be accumulated to a maximum of 21 days. Sick leave is accumulated at one day per month for full-time employees. Part-time employees earn vacation and sick leave on a prorated basis.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities and Net Assets

2. Liabilities

Compensated Absences (Continued)

Unvested sick leave, approximately \$14,196 at December 31, 2004, is available to employees in the event of illness-related absences and is not paid to them at termination.

3. Net Assets

The portion of net assets invested in capital assets represents the capital assets of Rainbow Rider net of accumulated depreciation. The remaining net assets are reported as unrestricted net assets.

E. Revenues and Expenses

1. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

Nonexchange Transactions

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating Rainbow Rider perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expense is incurred.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues and Expenses

1. Revenues

Nonexchange Transactions (Continued)

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Exchange Transactions

Other revenues, such as charges for services and investment income, are recognized as revenue when earned.

2. Expenses

Rainbow Rider recognizes expenses, including compensated absences, when incurred.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**RAINBOW RIDER
LOWRY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

G. Restatement

Reclassification of Fund Equity to Net Assets

Rainbow Rider has implemented GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Implementation of this new standard required the Board to change the format and content of the financial statements. This change must be considered when comparing financial statements of this report with those of prior reports. Implementation of the new standard required the following restatement of fund equity to net assets:

Retained earnings, as previously reported - December 31, 2003	\$	495,581
Contributed capital, as previously reported - December 31, 2003		126,689
Net Assets - January 1, 2004	\$	622,270

2. Detailed Notes

A. Budget to Actual

Below is a summary statement of budgeted and actual revenues and expenses for the year ended December 31, 2004.

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Charges for services	\$ 357,590	\$ 387,222	\$ 29,632
Miscellaneous	-	33,641	33,641
Total Operating Revenues	\$ 357,590	\$ 420,863	\$ 63,273
Operating Expenses			
Personal services	\$ 615,490	\$ 600,088	\$ 15,402
Administrative charges	57,450	63,967	(6,517)
Operating charges	251,337	258,731	(7,394)
Insurance	17,000	14,403	2,597
Depreciation	-	215,810	(215,810)
Total Operating Expenses	\$ 941,277	\$ 1,152,999	\$ (211,722)
Operating Income (Loss)	\$ (583,687)	\$ (732,136)	\$ (148,449)

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

A. Budget to Actual (Continued)

	Budget	Actual	Variance Favorable (Unfavorable)
Nonoperating Revenues (Expenses)			
Interest earnings	\$ -	\$ 5,990	\$ 5,990
Loans forgiven	-	102,103	102,103
Operating grants			
State	503,890	610,006	106,116
Federal		228,383	228,383
Interest expense	-	(5,431)	(5,431)
Gain on disposal of fixed assets	-	517	517
Total Nonoperating Revenues (Expenses)	\$ 503,890	\$ 941,568	\$ 437,678
Change in Net Assets	\$ (79,797)	\$ 209,432	\$ 289,229
Net Assets - January 1	622,270	622,270	-
Net Assets - December 31	\$ 542,473	\$ 831,702	\$ 289,229

B. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize Rainbow Rider to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Rainbow Rider Transit Board. Minnesota statutes require that all of the Board's deposits be covered by insurance, surety bond, or collateral. At December 31, 2004, Rainbow Rider's bank deposits were \$282,359. The book value of these deposits was \$280,222.

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

B. Deposits and Investments (Continued)

Following is a summary of the December 31, 2004, insurance and collateral as it relates to Rainbow Rider's custodial credit risk for its deposits.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by Rainbow Rider or its agent in Rainbow Rider's name	\$ 102,198
Collateralized with securities held by the pledging financial institution's agent in Rainbow Rider's name	<u>180,161</u>
Total covered deposits	\$ 282,359
Uncollateralized	<u>-</u>
Total Deposits	<u>\$ 282,359</u>

C. Due From Other Governments

The following amounts were due from other governments at December 31, 2004.

Federal	\$ 31,346
State	11,474
Local	<u>18,028</u>
Total	<u>\$ 60,848</u>

Rainbow Rider did not have any due from other governments scheduled to be collected beyond one year.

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes (Continued)

D. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2004 is:

	Beginning Balance	Increase	Decrease	Ending Balance
Land	\$ 7,500	\$ -	\$ -	\$ 7,500
Land improvements	12,483	-	-	12,483
Buildings and structures	243,197	-	-	243,197
Revenue vehicles and equipment	978,850	162,055	(45,894)	1,095,011
Office furniture and equipment	61,690	11,328	(11,710)	61,308
Total capital assets	\$ 1,303,720	\$ 173,383	\$ (57,604)	\$ 1,419,499
Less: accumulated depreciation	(699,036)	(215,905)	56,433	(858,508)
Net Capital Assets	\$ 604,684	\$ (42,522)	\$ (1,171)	\$ 560,991

E. Long-Term Debt

The lease purchase payable of \$35,179 was paid in its entirety as of December 31, 2004.

The notes and accrued interest payable at January 1, 2004, of \$97,241, along with an additional \$4,862 related to 2004, were eliminated as of December 31, 2004, since the Board of County Commissioners of Douglas, Pope, Stevens, and Traverse Counties, approved the forgiveness of the notes and related accrued interest in February 2005.

Rainbow Rider had a \$100,000 secured discretionary line of credit with an annual interest rate of 7.25 percent, which expired in July 2004.

F. Unearned Revenue

Unearned revenue consists of \$17,747 of unredeemed sold tickets.

G. Risk Management

Rainbow Rider is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health coverage; and natural disasters. Rainbow Rider is a member of the Minnesota Counties Insurance Trust (MCIT). For items not covered by the MCIT, Rainbow Rider carries

**RAINBOW RIDER
LOWRY, MINNESOTA**

2. Detailed Notes

G. Risk Management (Continued)

commercial insurance. Rainbow Rider retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions of insurance from the previous year or settlements in excess of insurance coverage for any of the past two fiscal years.

Risk of loss associated with injuries to employees is covered by membership in the MCIT Workers' Compensation Division. The risk associated with Rainbow Rider operations has not been separately identified.

The Workers' Compensation Division of the MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess Rainbow Rider in a method and amount to be determined by the MCIT.

The Property and Casualty Division of the MCIT is self-sustaining, and Rainbow Rider pays an annual premium to cover current and future losses. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, the MCIT may assess Rainbow Rider in a method and amount to be determined by the MCIT.

3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of Rainbow Rider are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Pension Plans

A. Plan Description (Continued)

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the web at mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**RAINBOW RIDER
LOWRY, MINNESOTA**

3. Pension Plans (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. Rainbow Rider makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Rainbow Rider is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

Rainbow Rider's contributions for the years ending December 31, 2004, 2003, and 2002, were \$23,225, \$21,321, and \$22,664, respectively, equal to the contractually required contributions for each year as set by state statute.

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**RAINBOW RIDER
LOWRY, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004

I. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Segregation of Duties

Due to the limited number of office personnel within Rainbow Rider, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Rainbow Rider; however, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

We recommend that management be aware of the lack of segregation of duties within the accounting functions and implement oversight procedures to ensure that internal control policies and procedures are followed.

Client's Response:

Rainbow Rider management is aware of the lack of segregation of duties which is due to minimal staff. Rainbow Rider management is continuously working at correcting this problem by segregating duties with what staff is available.

ITEM ARISING THIS YEAR

04-1 Capital Asset Records

Controls over the recording of capital asset additions and deletions need to be improved. Our testing of the capital asset system disclosed that Rainbow Rider does not keep a complete and accurate listing of capital assets.

We recommend Rainbow Rider develop and maintain complete capital asset records. Rainbow Rider should establish capital asset policies. The policies should include such items as:

- capitalization thresholds setting the minimum dollar amount and useful life for an item to be capitalized rather than expensed,
- useful lives for depreciating various classes of assets,
- the method of depreciation to use,
- guidance on what types of disbursements should be capitalized and what types should be expensed in the current year,
- requirement for periodic inventories of capital assets to be compared with the detailed records, and
- guidance on disposing of obsolete and fully-depreciated unused assets.

Client's Response:

The Rainbow Rider Transit Board adopted a capital asset policy on February 9, 2006.

II. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Discretionary Line of Credit (01-3)

Rainbow Rider entered into an agreement on April 30, 2002, with the Lowry State Bank for a \$100,000 secured discretionary line of credit with an annual interest rate of 7.25 percent, to provide necessary cash for operations prior to receiving county appropriations. State law does not provide Rainbow Rider the authority to acquire discretionary lines of credit.

Resolution

The discretionary line of credit expired in July 2004 and was not renewed as of December 31, 2004.



PATRICIA ANDERSON
STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Rainbow Rider Transit Board
Lowry, Minnesota

We have audited the basic financial statements of Rainbow Rider as of and for the year ended December 31, 2004, and have issued our report thereon dated November 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of Rainbow Rider is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered Rainbow Rider's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable

conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Rainbow Rider's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 96-1 and 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions indicated above are not material weaknesses.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Rainbow Rider complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Rainbow Rider Transit Board and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 22, 2005